SaskTel

Consolidated Financial Statements of

SECURTEK MONITORING SOLUTIONS INC.

December 31, 2000

101-04113/

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
Royal Bank Building
2010 - 11th Avenue
Suite 900
Regina Saskatchewan
Canada S4P 0J3
Telephone +1 (306) 790 7900
Facsimile +1 (306) 790 7990

January 29, 2001

Auditors' Report

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have audited the consolidated statement of financial position of **SecurTek Monitoring Solutions Inc.** as at December 31, 2000 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year's consolidated financial statements were audited by another firm of Chartered Accountants who provided their audit report dated May 23, 2000.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31	2000 (12 months)	1999 (8 months)
Operating revenues (Note 3)	$ 3,669,803	$ 348,782
Operating expenses	3,673,472	1,423,829
	(3,669)	(1,075,047)
Depreciation and amortization	1,209,380	144,161
Interest expense (Note 8)	308,504	28,838
Net loss	$ (1,521,553)	$ (1,248,046)

CONSOLIDATED STATEMENT OF DEFICIT

Year ended December 31	2000 (12 months)	1999 (8 months)
Deficit, beginning of year	$ (1,248,046)	$ -
Net loss	(1,521,553)	(1,248,046)
Deficit, end of year	$ (2,769,599)	$ (1,248,046)

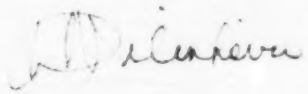
See Accompanying Notes

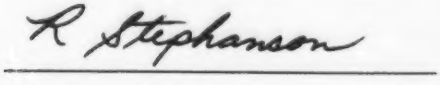
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31

	2000	1999
Assets		
Current assets		
Cash	$ 386,505	$ 482,069
Accounts receivable	714,521	225,992
Due from SaskTel (Note 4)	327,657	473,852
Prepaid expenses	42,279	22,568
	1,470,962	1,204,481
Capital assets (Note 5)	2,034,410	943,153
Customer accounts (Note 6)	13,203,067	3,029,711
Deferred development costs (Note 7)	598,973	603,234
	$ 17,307,412	$ 5,780,579
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,446,450	$ 750,345
Deferred revenue	863,557	228,886
	2,310,007	974,231
Obligations under capital leases (Note 10)	51,719	-
Due to Holdco (Note 8)	9,023,852	3,053,110
	11,385,578	4,032,341
Shareholder's equity		
Share capital and contributed surplus (Note 11)	8,691,433	2,996,284
Deficit	(2,769,599)	(1,248,046)
	5,921,834	1,748,238
	$ 17,307,412	$ 5,780,579

See Accompanying Notes

On behalf of the Board





CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31

	2000 (12 months)	1999 (8 months)
Cash provided by (used in):		
Operating activities		
Net loss before interest paid	$ (1,213,049)	$ (1,219,208)
Interest paid	(308,504)	(28,838)
Net loss	(1,521,553)	(1,248,046)
Items not affecting cash from operations	1,209,385	144,161
Net change in non-cash working capital items	949,563	256,819
	637,395	(847,066)
Financing activities		
Obligations under capital leases	89,828	-
Repayment of obligations under capital leases	(18,940)	-
Due to Holdco (Note 8)	5,970,742	3,053,110
Receipt of contributed surplus	5,695,148	2,996,284
	11,736,778	6,049,394
Investing activities		
Capital expenditures	(1,476,033)	(1,014,163)
Customer accounts	(2,831,238)	(472,814)
Business acquisitions (Note 3)	(8,035,245)	(2,588,990)
Deferred development costs	(127,221)	(644,292)
	(12,469,737)	(4,720,259)
(Decrease) increase in cash	(95,564)	482,069
Cash, beginning of year	482,069	-
Cash, end of year	$ 386,505	$ 482,069

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- The Corporation

SecurTek Monitoring Solutions Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan and is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of providing real time monitoring solutions.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada.

Note 2 -- Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Grenfell Holding, Inc., which operates as Metropol Emergency Response Centre (MERC). All significant intercompany transactions and balances have been eliminated.

Revenue recognition
Revenues from the monitoring of alarm systems are recognized when services are performed. Installation revenue is recognized in the month in which the systems are installed.

Capital assets
Capital assets are recorded at cost less accumulated amortization. Amortization is computed on a straight-line basis over the following periods:

Leasehold improvements and software	5 years
Furniture and equipment	4 to 5 years
Customer premise equipment	3 years

Customer accounts
Customer accounts are recorded at cost, which relates to monitoring revenues attributed to these accounts. Customer accounts are amortized over 10 to 12.5 years.

Deferred development costs
Business development costs incurred during the start-up phase are deferred and amortized over five years.

Note 3 – Business acquisitions

On July 31, 2000, all of the outstanding shares of Holdfast Holding, Inc. were purchased by Grenfell Holding Inc., a wholly owned subsidiary of SecurTek Monitoring Solutions Inc. Subsequent to the acquisition, Holdfast Holding, Inc. was amalgamated with Grenfell Holding, Inc. The business acquired provides retail and wholesale security monitoring services in Manitoba and Alberta, and operates as Metropol Emergency Response Centre (MERC).

The acquisition was accounted for under the purchase method and the results of operations have been included in the consolidated earnings from the date of acquisition. The total consideration was $7.8 million. The fair value of the identifiable assets and liabilities acquired were $8.8 million and $1.0 million, respectively.

In the prior year, SecurTek acquired, for $2.6 million, all of the common shares of two corporations that provided security monitoring services.

Note 4 -- Due from Saskatchewan Telecommunications (SaskTel)

Due from SaskTel represents the customer accounts receivable transferred from the Corporation.

Note 5 -- Capital assets

	2000	1999
Office furniture, equipment, and leaseholds	$ 463,501	$ 463,501
Computer hardware and software	1,063,488	327,392
Customer premise equipment	963,207	223,270
	2,490,196	1,014,163
Less: Accumulated depreciation	455,786	71,010
	$ 2,034,410	$ 943,153

Note 6 -- Customer accounts

	2000	1999
Customer accounts	$ 13,928,287	$ 3,061,804
Less: Accumulated amortization	725,220	32,093
	$ 13,203,067	$ 3,029,711

Note 7 -- Deferred development costs

	2000	1999
Deferred development costs	$ 771,513	$ 644,292
Less: Accumulated amortization	172,540	41,058
	$ 598,973	$ 603,234

Note 8 -- Due to Holdco

Amounts due to Holdco bear interest at the Province of Saskatchewan ninety-day borrowing rate with no fixed repayment terms. Accordingly, the amount due has been classified as long-term.

Note 9 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2000	1999
Operating expenses	$ 399,929	$ 162,580
Accounts payable	574,399	604,774
Accounts receivable	327,657	-

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 10 -- Commitments

The future minimum lease payments under the capital and operating leases of the Corporation are as follows:

	Capital	Operating
2001	$ 25,077	$ 107,516
2002	$ 25,077	$ 101,555
2003	$ 12,926	$ 35,984
2004	$ 6,997	$ 11,995

Capital leases expire over the periods February 2003 and September 2004 and incur interest between 9.28% and 9.30%. Interest of $10,075 is included with the payments relating to obligations under capital leases. The current portion of obligations under capital leases is included in current liabilities.

Note 11 -- Share capital and contributed surplus

	2000	1999
Share capital		
Authorized - unlimited number of class A common shares		
Issued – 100 shares		
	$ 100	$ 100
Contributed surplus	8,691,333	2,996,184
	$ 8,691,433	$ 2,996,284

During the year the corporation received $5,695,148 from Holdco in the form of contributed surplus.

Note 12 -- Comparatives

1999 figures have been reclassified to conform to the current year's presentation.